

Form 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

- ☒ **Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 (no fee required)**

For the Year Ended December 31, 2001

OR

- ☐ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 (no fee required)**

For the transition period from ____ to ____

Commission File number 0-24175

ATEL Capital Equipment Fund VII, L.P.

California

(State or other jurisdiction of
incorporation or organization)

94-3248318

(I. R. S. Employer
Identification No.)

235 Pine Street, 6th Floor, San Francisco, California 94104

(Address of principal executive offices)

Registrant's telephone number, including area code (415) 989-8800

Securities registered pursuant to section 12(b) of the Act: None

Securities registered pursuant to section 12(g) of the Act: Limited Partnership Units

Indicate by a check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes



No



State the aggregate market value of voting stock held by non-affiliates of the registrant: Inapplicable

DOCUMENTS INCORPORATED BY REFERENCE

Prospectus dated November 29, 1996, filed pursuant to Rule 424(b) (Commission File No. 333-08879) is hereby incorporated by reference into Part IV hereof.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

PART I

Item 1: BUSINESS

General Development of Business

ATEL Capital Equipment Fund VII, L.P. (the Partnership) was formed under the laws of the state of California in May 1996. The Partnership was formed for the purpose of acquiring equipment to engage in equipment leasing and sales activities. The General Partner of the Partnership is ATEL Financial Services LLC (ATEL). Prior to converting to a limited liability company structure, the General Partner was formerly known as ATEL Financial Corporation.

The Partnership conducted a public offering of 15,000,000 Units of Limited Partnership Interest (Units) at a price of \$10 per Unit. On January 7, 1997, the Partnership commenced operations in its primary business (leasing activities). As of November 27, 1998, the Partnership had received subscriptions for 15,000,000 (\$150,000,000) Limited Partnership Units and the offering was terminated. As of December 31, 2001, 14,996,050 Units were issued and outstanding.

The Partnership's principal objectives are to invest in a diversified portfolio of equipment which will (i) preserve, protect and return the Partnership's invested capital; (ii) generate regular distributions to the partners of cash from operations and cash from sales or refinancing, with any balance remaining after certain minimum distributions to be used to purchase additional equipment during the reinvestment period, ending December 31, 2004 and (iii) provide additional distributions following the reinvestment period and until all equipment has been sold. The Partnership is governed by its Limited Partnership Agreement.

Narrative Description of Business

The Partnership has acquired and intends to acquire various types of equipment and to lease such equipment pursuant to "Operating" leases and "High Payout" leases, where "Operating" leases are defined as being leases in which the minimum lease payments during the initial lease term do not recover the full cost of the equipment and "High Payout" leases recover at least 90% of such cost. It is the intention of the General Partner that a majority of the aggregate purchase price of equipment will represent equipment leased under "High Payout" leases upon final investment of the net proceeds of the offering and that no more than 20% of the aggregate purchase price of equipment will be invested in equipment acquired from a single manufacturer.

The Partnership will generally only purchase equipment for which a lease exists or for which a lease will be entered into at the time of the purchase.

As of December 31, 2001, the Partnership had purchased equipment with a total acquisition price of \$295,738,953.

The Partnership's objective is to lease a minimum of 75% of the equipment acquired with the net proceeds of the offering to lessees which (i) have an aggregate credit rating by Moody's Investor Service, Inc. of Baa or better, or the credit equivalent as determined by the General Partner, with the aggregate rating weighted to account for the original equipment cost for each item leased or (ii) are established hospitals with histories of profitability or municipalities. The balance of the original equipment portfolio may include equipment leased to lessees which, although deemed creditworthy by the General Partner, would not satisfy the general credit rating criteria for the portfolio. In excess of 75% of the equipment acquired with the net proceeds of the offering (based on original purchase cost) has been leased to lessees with an aggregate credit rating of Baa or better or to such hospitals or municipalities.

During 2001 and 2000, no single lessee generated more than 10% of the Partnership's lease revenues. During 1999 certain lessees generated significant portions of the Partnership's total lease revenues as follows:

<u>Lessee</u>	<u>Type of Equipment</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Burlington Northern Santa Fe Railroad Company	Locomotives & intermodal containers	*	*	10%

* Less than 10%.

These percentages are not expected to be comparable in future periods.

The equipment leasing industry is highly competitive. Equipment manufacturers, corporations, partnerships and others offer users an alternative to the purchase of most types of equipment with payment terms which vary widely depending on the lease term and type of equipment. The ability of the Partnership to keep the equipment leased and/or operating and the terms of the acquisitions, leases and dispositions of equipment depends on various factors (many of which are not in the control of the General Partner or the Partnership), such as general economic conditions, including the effects of inflation or recession, and fluctuations in supply and demand for various types of equipment resulting from, among other things, technological and economic obsolescence.

The General Partner will seek to limit the amount invested in equipment to any single lessee to not more than 20% of the aggregate purchase price of equipment owned at any time during the reinvestment period.

The business of the Partnership is not seasonal.

The Partnership has no full time employees.

Equipment Leasing Activities

Through December 31, 2001, the Partnership has disposed of certain leased assets as set forth below:

Type of <u>Equipment</u>	Original <u>Equipment Cost</u>	<u>Sale Price</u>	Excess of Rents Over <u>Expenses *</u>
Manufacturing	\$ 20,148,978	\$ 6,598,632	\$ 12,995,002
Transportation	15,633,616	7,357,523	12,511,925
Aircraft	3,764,124	4,330,088	1,814,760
Other	2,146,575	340,470	1,354,717
Office automation	6,200,335	911,459	6,044,229
Food processing	1,879,008	1,304,001	1,662,983
Furniture and fixtures	1,350,493	765,340	1,068,345
Mining	816,729	888,685	173,808
Materials handling	572,978	25,095	746,386
	<u>\$ 52,512,836</u>	<u>\$ 22,521,293</u>	<u>\$ 38,372,155</u>

* Includes only those expenses directly related to the production of the related rents.

The Partnership has acquired a diversified portfolio of equipment. The equipment has been leased to lessees in various industries. The following tables set forth the types of equipment acquired by the Partnership through December 31, 2001 and the industries to which the assets have been leased. The Partnership has purchased certain assets subject to existing non-recourse debt. For financial statement purposes, non-recourse debt has been offset against the investment in certain direct finance leases where the right of offset exists.

<u>Asset Types</u>	Purchase Price Excluding <u>Acquisition Fees</u>	Percentage of Total <u>Acquisitions</u>
Transportation, rail cars	\$ 64,328,409	21.76%
Manufacturing	45,709,520	15.46%
Mining	30,756,101	10.40%
Transportation, other	26,723,940	9.04%
Transportation, intermodal containers	26,631,519	9.01%
Marine vessels	22,335,250	7.55%
Motor Vehicles	12,519,832	4.23%
Office automation	11,449,934	3.87%
Materials handling	9,942,309	3.36%
Medical	9,133,951	3.09%
Aircraft	6,310,979	2.13%
Railroad locomotives	5,010,960	1.69%
Other *	24,886,249	8.41%
	<u>\$ 295,738,953</u>	<u>100.00%</u>

<u>Industry of Lessee</u>	Purchase Price Excluding <u>Acquisition Fees</u>	Percentage of Total <u>Acquisitions</u>
Transportation, rail	\$ 73,779,368	24.95%
Municipalities	45,050,058	15.23%
Transportation, other	43,079,361	14.57%
Manufacturing, other	34,283,793	11.59%
Electronics	26,062,302	8.81%
Mining	17,670,967	5.98%
Business services	15,093,493	5.10%
Primary metals	13,251,254	4.48%
Other *	27,468,357	9.29%
	<u>\$ 295,738,953</u>	<u>100.00%</u>

* Individual amounts included in "Other" represent less than 2.5% of the total.

For further information regarding the Partnership's equipment lease portfolio as of December 31, 2001, see Note 3 to the financial statements, Investments in equipment and leases, set forth in Item 8, Financial Statements and Supplementary Data.

Item 2. PROPERTIES

The Partnership does not own or lease any real property, plant or material physical properties other than the equipment held for lease as set forth in Item 1.

Item 3. LEGAL PROCEEDINGS

No material legal proceedings are currently pending against the Partnership or against any of its assets. The following is a discussion of legal matters involving the Partnership, but which do not represent claims against the Partnership or its assets.

Applied Magnetics Corporation:

In January 2000, Applied Magnetics Corporation filed for protection from creditors under Chapter 11 of the U.S. Bankruptcy Code. The Partnership had assets with a total net book value of \$8,048,095 leased to Applied Magnetics Corporation at the bankruptcy filing date. On January 31, 2000, the General Partner was appointed to the Official Committee of Unsecured Creditors and currently serves as the Chairperson of the Committee. Procedures were quickly undertaken for the liquidation of the Partnership's leased equipment, which proceeds resulted in recoveries of \$1,773,798 or 21.7% of original equipment cost. As of November 1, 2000, liquidation of the assets was completed.

The debtor filed a Plan of Reorganization (the "Plan"), which was approved by a vote of the creditors of the debtor in October 2001. The Plan provided that the Debtor change its name to "Integrated Micro-Technology", and enter into a new line of business, the manufacture and production of "micro-machines". As part of the Plan, the Partnership, along with the other unsecured creditors, receives a proportionate share of their unsecured claims, in the form of ownership shares and warrants in the newly formed business. The success of this new business plan is highly uncertain.

The Partnership anticipates additional amounts may be recoverable through its equity interests in the reorganized lessee's business, however, any recoveries above the amounts received upon liquidation of the Partnership's equipment are highly uncertain and speculative.

Pioneer Companies, Inc.:

On July 31, 2001, petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code were filed by the Pioneer Companies, Inc., et al. The Partnership's Proof of Claim was timely filed on October 14, 2001, with the Bankruptcy Clerk in Houston. The Partnership is the successor in interest to First Union Rail Corporation (FURC) under four (4) tank car lease schedules for 36 tank cars with Pioneer Chlor-Alkali Company, Inc. n/k/a Pioneer Americas, Inc. (together, the "Lease"). FURC manages the Lease for the Partnership. The Order Confirming Debtor's Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code ("Plan") was entered on November 28, 2001. The Effective Date, as defined in the Plan, was December 31, 2001. Pursuant to Schedules 6.1(a)(x) and 6.1(a)(y) of the Plan, the Lease was rejected by the debtor.

Although the equipment was to be returned to FURC by December 31, 2001, the debtor has continued to use and pay for the equipment under the Lease on a month-to-month basis. A letter agreement has been forwarded to debtor to formalize an understanding for debtor's continued use of the equipment under the terms of the Lease at least until March 31, 2002. The full extent of any recovery is not known at this time.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

Item 5. MARKET FOR REGISTRANT'S LIMITED PARTNERSHIP UNITS AND RELATED MATTERS

Market Information

The Units are transferable subject to restrictions on transfers which have been imposed under the securities laws of certain states. However, as a result of such restrictions, the size of the Partnership and its investment objectives, to the General Partner's knowledge, no established public secondary trading market has developed and it is unlikely that a public trading market will develop in the future.

Holders

As of December 31, 2001, a total of 5,586 investors were record holders of Units in the Partnership.

Dividends

The Partnership does not make dividend distributions. However, the Limited Partners of the Partnership are entitled to certain distributions as provided under the Limited Partnership Agreement.

The General Partner has sole discretion in determining the amount of distributions; provided, however, that the General Partner will not reinvest in equipment, but will distribute, subject to payment of any obligations of the Partnership, such available cash from operations and cash from sales or refinancing as may be necessary to cause total distributions to the Limited Partners for each year during the reinvestment period to equal \$1.00 per Unit. The reinvestment period ends December 31, 2004.

The rate for monthly distributions from 2001 operations was \$0.0833 per Unit. The distributions were paid in February 2001 through December 2001 and in January 2002. For each quarterly distribution (paid in April, July and October 2001 and in January 2002) the rate was \$0.25 per Unit. Distributions were from 2001 cash flows from operations.

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The following table presents summarized information regarding distributions to Limited Partners:

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Distributions of net income (loss)	\$ 0.01	\$ 0.53	\$ (0.17)	\$ 0.46	\$ (0.20)
Return of investment	0.99	0.48	1.17	0.45	0.99
Distributions per Unit	1.00	1.01	1.00	0.91	0.79
Differences due to timing of distributions	-	(0.01)	-	0.09	0.21
Nominal distribution rates from above	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>

Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial data of the Partnership at December 31, 2001, 2000, 1999, 1998 and 1997. This financial data should be read in conjunction with the financial statements and related notes included under Part II Item 8.

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Gross revenues	\$ 30,646,525	\$ 41,463,919	\$ 39,634,771	\$ 37,195,090	\$ 7,373,981
Net income (loss)	\$ 2,939,818	\$ 9,158,705	\$ (2,159,370)	\$ 5,279,496	\$ (738,233)
Weighted average Units outstanding	14,996,050	14,996,050	14,996,050	10,729,510	3,380,442
Net income (loss) allocated to Limited Partners	\$ 140,295	\$ 7,938,589	\$ (2,622,996)	\$ 4,883,534	\$ (682,866)
Net income (loss) per Unit, based on weighted average Units outstanding	\$ 0.01	\$ 0.53	\$ (0.17)	\$ 0.46	\$ (0.20)
Distributions per Unit, based on weighted average Units outstanding	\$ 1.00	\$ 1.01	\$ 1.00	\$ 0.91	\$ 0.79
Total Assets	\$135,853,619	\$157,600,746	\$191,424,300	\$212,456,902	\$104,416,786
Non-recourse Debt	\$ 9,971,225	\$ 15,452,741	\$ 21,780,420	\$ 16,599,347	\$ 8,127,374
Other long-term debt	\$ 38,540,000	\$ 44,877,000	\$ 53,181,000	\$ 61,553,000	\$ -
Total Partners' Capital	\$ 79,492,851	\$ 94,163,608	\$ 101,313,784	\$ 119,711,246	\$ 53,900,414

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Capital Resources and Liquidity

The Partnership's public offering provided for a total maximum capitalization of \$150,000,000. As of November 27, 1998, the offering was concluded. As of that date, subscriptions for 15,000,000 Units had been received and accepted.

The liquidity of the Partnership will vary in the future, increasing to the extent cash flows from leases and proceeds of asset sales exceed expenses, and decreasing as lease assets are acquired, as distributions are made to the Limited Partners and to the extent expenses exceed cash flows from leases and proceeds from asset sales.

As another source of liquidity, the Partnership is expected to have contractual obligations with a diversified group of lessees for fixed lease terms at fixed rental amounts. As the initial lease terms expire, the Partnership will re-lease or sell the equipment. The future liquidity beyond the contractual minimum rentals will depend on the General Partner's success in re-leasing or selling the equipment as it comes off lease.

The Partnership participates with the General Partner and certain of its affiliates in a \$62,000,000 revolving line of credit with a financial institution that includes certain financial covenants. The line of credit expires on April 12, 2002. The General Partner is currently negotiating a new line of credit and anticipates that the current line of credit will either be replaced upon its expiration or that the current line of credit will be extended until the new one is finalized. As of December 31, 2001, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	\$ 4,100,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	<u>13,500,000</u>
Total borrowings under the acquisition facility	17,600,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility *	<u>10,999,501</u>
Total outstanding balance	<u><u>\$ 28,599,501</u></u>
 Total available under the line of credit	 \$ 62,000,000
Total outstanding balance	(28,599,501)
Remaining availability	<u><u>\$ 33,400,499</u></u>

* (Unaudited) The carrying value of the assets pledged as collateral and financed at December 31, 2001 was \$17,955,014.

Draws on the acquisition facility by any individual borrower are secured only by that borrower's assets, including equipment and related leases. Borrowings on the warehouse facility are recourse jointly to certain of the affiliated partnerships and limited liability companies, the Partnership and the General Partner.

The Partnership anticipates reinvesting a portion of lease payments from assets owned in new leasing transactions. Such reinvestment will occur only after the payment of all obligations, including debt service (both principal and interest), the payment of management and acquisition fees to the General Partner and providing for cash distributions to the Limited Partners. At December 31, 2001, the Partnership had commitments to purchase lease assets totaling approximately \$1,764,000.

As of December 31, 2001, cash balances consisted of working capital and amounts reserved for distributions to be paid in January 2002, generated from operations in 2001.

The Partnership currently has available adequate reserves to meet its immediate cash requirements, but in the event those reserves were found to be inadequate, the Partnership would likely be in a position to borrow against its current portfolio to meet such requirements. The General Partner envisions no such requirements for operating purposes.

In 1998, the Partnership established a \$65 million receivables funding program with a receivables financing company that issues commercial paper rated A1 from Standard and Poors and P1 from Moody's Investor Services. In this receivables funding program, the lenders received a general lien against all of the otherwise unencumbered assets of the Partnership. The program provided for borrowing at a variable interest rate and required the General Partner to enter into interest rate swap agreements with certain hedge counterparties (also rated A1/P1) to mitigate the interest rate risk associated with a variable rate note. The General Partner anticipated that this program would allow the Partnership to avail itself of lower cost debt than that available for individual non-recourse debt transactions. The program expired as to new borrowings in February 2002.

See Item 7a and Note 5 to the financial statements for additional information regarding this program and related interest rate swaps.

It is the intention of the Partnership to use the receivables funding program as its primary source of debt financing. The Partnership will continue to use its sources of non-recourse secured debt financing on a transaction basis as a means of mitigating credit risk.

The General Partner expects that aggregate borrowings in the future will be approximately 50% of aggregate equipment cost. In any event, the Limited Partnership Agreement limits such borrowings to 50% of the total cost of equipment, in aggregate.

See Note 4 to the financial statements for additional information regarding non-recourse debt.

The Partnership commenced regular distributions, based on cash flows from operations, beginning with the month of January 1997. See Items 5 and 6 of this report for additional information regarding distributions.

If inflation in the general economy becomes significant, it may affect the Partnership inasmuch as the residual (resale) values and rates on re-leases of the Partnership's leased assets may increase as the costs of similar assets increase. However, the Partnership's revenues from existing leases would not increase, as such rates are generally fixed for the terms of the leases without adjustment for inflation.

If interest rates increase significantly, the lease rates that the Partnership can obtain on future leases will be expected to increase as the cost of capital is a significant factor in the pricing of lease financing. Leases already in place, for the most part, would not be affected by changes in interest rates.

Cash Flows

2001 vs. 2000:

Cash flows from operations decreased from \$28,382,888 in 2000 to \$23,869,682 in 2001, a decrease of \$4,513,206. Rents from operating leases is the primary source of operating cash flows. Sales of operating lease assets in 2000 and 2001 led to the decrease in operating lease revenues compared to 2000.

In 2001 and 2000, sources of cash from investing activities consisted of proceeds from the sales of lease assets and from rents from direct financing leases. Proceeds from the sales of lease assets decreased from \$10,439,849 in 2000 to \$3,830,077 in 2001, a decrease of \$6,609,772. Rents from direct financing leases decreased by \$293,602 as a result of sales of lease assets in 2000 and 2001.

In 2001, financing sources of cash consisted of proceeds of long-term debt and borrowings on the line of credit. In 2000, financing sources of cash consisted of proceeds of long-term debt, proceeds of non-recourse debt and borrowings on the line of credit. The proceeds of long-term debt were used to repay the line of credit. The additional non-recourse debt was assumed as a part of the acquisition of leased assets in 2001 and 2000.

Cash used to repay long-term debt decreased as a result of reduced scheduled payments, net of the effect of the additional borrowings in 2001. Overall, average debt balances were lower in 2001 than in 2000.

2000 vs. 1999:

Cash flows from operations decreased from \$29,817,476 in 1999 to \$28,382,888 in 2000, a decrease of \$1,434,588. Rents from operating leases is the primary source of operating cash flows. Purchases of operating lease assets in 1999 led to the slight increase in operating lease revenues compared to 1999.

In 2000, sources of cash from investing activities consisted of proceeds from the sales of lease assets and from rents from direct financing leases. Proceeds from the sales of lease assets increased from \$2,469,199 in 1999 to \$10,439,849 in 2000, an increase of \$7,970,650. Rents from direct financing leases decreased by \$851,900 as a result of lease maturities and sales of lease assets in 1999 and 2000.

In 2000, financing sources of cash consisted of proceeds of long-term debt, proceeds of non-recourse debt and borrowings on the line of credit. The proceeds of long-term debt were used to repay the line of credit. The additional non-recourse debt was assumed as a part of the acquisition of leased assets in 2000.

Cash used for distributions to partners did not change significantly. Non-recourse debt payments increased as a result of the early repayment of the debt associated with the leases to Applied Magnetics. See Item 3 for a further discussion of the Applied Magnetics lease.

Cash used to repay long-term debt decreased as a result scheduled payments, net of the effect of the additional borrowings in 2000. Overall, average debt balances were lower in 2000 than in 1999.

Results of Operations

As of January 7, 1997, subscriptions for the minimum amount of the offering (\$1,200,000) had been received and accepted by the Partnership. As of that date, the Partnership commenced operations in its primary business (leasing activities). There were no operations in 1996.

2001 vs. 2000:

Operations resulted in net income of \$2,939,818 in 2001 compared to \$9,158,705 in 2000.

Revenues from leases decreased from \$38,849,507 in 2000 to \$31,726,016 in 2001, a decrease of \$7,123,491. Decreases resulted from asset sales in 2000 and in 2001. Gains and losses on sales of assets decreased from a gain of \$2,381,787 in 2000 to a loss of \$1,145,708 in 2001, a decrease of \$3,527,495. Such gains and losses are not expected to be consistent from one period to another.

Depreciation expense decreased in 2001 compared to 2000 as a result of asset sales in 2000 and 2001.

Interest expense declined as a result of scheduled debt payments and the early extinguishment of the Applied Magnetics debt in 2000. Total debt, including the line of credit, decreased from \$60,329,741 at December 31, 2000 to \$52,611,225 at December 31, 2001.

2000 vs. 1999:

Operations resulted in net income of \$9,158,705 compared to a loss of \$2,159,370 in 1999.

Revenues from leases increased from \$38,780,392 in 1999 to \$38,849,507 in 2000, an increase of \$69,115. Increases resulting from asset purchases in 1999 and in 2000 were offset by the effects of assets sales. Gains on sales of assets increased from \$784,853 in 1999 to \$2,381,787 in 2000, an increase of \$1,596,934. Such gains and losses are not expected to be consistent from one period to another.

Depreciation expense increased slightly (less than 2%) compared to 1999 as a result of asset acquisitions in 1999.

Interest expense declined as a result of scheduled debt payments and the early extinguishment of the Applied Magnetics debt. These repayments and extinguishments exceeded the amounts of new borrowings in 2000. Total debt, including the line of credit, decreased from \$86,111,420 at December 31, 1999 to \$60,329,741 at December 31, 2000.

In 2000, there were no new major lease defaults similar to the Applied Magnetics default in 1999. Consequently, there were no new provisions for losses or doubtful accounts in 2000.

The Partnership recognized an extraordinary gain on the early extinguishment of debt of \$2,056,574. This was related to the non-recourse debt on the Applied Magnetics leases, which was extinguished upon foreclosure by the lender in 2000.

Derivative Financial Instruments

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which established new accounting and reporting standards for derivative instruments. SFAS No. 133 has been amended by SFAS No. 137, issued in June 1999, and by SFAS No. 138, issued in June 2000.

SFAS No. 133, as amended, requires the Partnership to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value of the derivative instruments.

The Partnership adopted SFAS No. 133, as amended, on January 1, 2001. Upon adoption, the Partnership recorded interest rate swap hedging instruments at fair value in the balance sheet and recognized the offsetting gains or losses reported in net income or other comprehensive income, as appropriate. See Note 5 to the financial statements for additional information.

Recent accounting pronouncement:

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Partnership expects to adopt SFAS 144 as of January 1, 2002 and it does not expect that the adoption of the Statement will have a significant impact on the Partnership's financial position and results of operations.

Item 7a. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The Partnership, like most other companies, is exposed to certain market risks, including primarily changes in interest rates. The Partnership believes its exposure to other market risks including foreign currency exchange rate risk, commodity risk and equity price risk are insignificant to both its financial position and results of operations.

In general, the Partnership's strategy is to manage its exposure to interest rate risk by obtaining fixed rate debt. Current fixed rate debt is structured so as to match the cash flows required to service the debt to the payment streams under fixed rate lease receivables. The payments under the leases are assigned to the lenders in satisfaction of the debt. Furthermore, the Partnership has historically been able to maintain a stable spread between its cost of funds and lease yields in both periods of rising and falling interest rates. Nevertheless, the Partnership frequently funds leases with its floating rate line of credit and is, therefore, exposed to interest rate risk until fixed interest rate financing is arranged, or the floating interest rate line of credit is repaid. As of December 31, 2001, there was an outstanding balance of \$4,100,000 on the floating rate line of credit and the effective interest rate of the borrowings was 4.75%.

Also, as described in the caption "Capital Resources and Liquidity," the Partnership entered into a receivables funding facility in 1998. Since interest on the outstanding balances under the facility varies, the Partnership is exposed to market risks associated with changing interest rates. To hedge its interest rate risk, the Partnership enters into interest rate swaps, which effectively convert the underlying interest characteristic on the facility from floating to fixed. Under the swap agreements, the Partnership makes or receives variable interest payments to or from the counterparty based on a notional principal amount. The net differential paid or received by the Partnership is recognized as an adjustment to interest expense related to the facility balances. The amount paid or received represents the difference between the payments required under the variable interest rate facility and the amounts due under facility at the fixed (hedged) interest rate. As of December 31, 2001, borrowings on the facility were \$38,540,000 and the associated variable interest rate was 2.0624%. The average fixed interest rate achieved with the swap agreements was 6.084%.

In general, these swap agreements eliminate the Partnership's interest rate risk associated with variable rate borrowings. However, the Partnership is exposed to and manages credit risk associated with the counterparty by dealing only with institutions it considers financially sound. If these agreements were not in place, based on the Partnership's facility borrowings at December 31, 2001, a hypothetical 1.00% increase or decrease in market interest rates, would increase or decrease the Partnership's 2002 variable interest expense by approximately \$322,000.

See the Notes to the financial statements for additional information.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Report of Independent Auditors, Financial Statements and Notes to Financial Statements attached hereto at pages 13 through 31.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Partners
ATEL Capital Equipment Fund VII, L.P.

We have audited the accompanying balance sheets of ATEL Capital Equipment Fund VII, L.P. (Partnership) as of December 31, 2001 and 2000, and the related statements of operations, changes in partners' capital and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ATEL Capital Equipment Fund VII, L.P. at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Francisco, California
February 1, 2002

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

ASSETS

	<u>2001</u>	<u>2000</u>
Cash and cash equivalents	\$ 936,189	\$ 1,321,417
Accounts receivable, net of allowance for doubtful accounts of \$118,067 in 2001, none in 2000	5,759,540	6,222,311
Other assets	108,015	90,011
Investments in equipment and leases	<u>129,049,875</u>	<u>149,967,007</u>
Total assets	<u><u>\$ 135,853,619</u></u>	<u><u>\$ 157,600,746</u></u>

LIABILITIES AND PARTNERS' CAPITAL

Non-recourse debt	\$ 9,971,225	\$ 15,452,741
Other long-term debt	38,540,000	44,877,000
Line of credit	4,100,000	-
Accounts payable and accruals:		
General Partner	580,916	605,684
Other	510,598	703,761
Accrued interest payable	355,458	533,858
Interest rate swap contracts	1,326,006	-
Unearned lease income	<u>976,565</u>	<u>1,264,094</u>
	56,360,768	63,437,138
Total partners' capital	<u>79,492,851</u>	<u>94,163,608</u>
Total liabilities and partners' capital	<u><u>\$ 135,853,619</u></u>	<u><u>\$ 157,600,746</u></u>

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

Revenues:	<u>2001</u>	<u>2000</u>	<u>1999</u>
Leasing activities:			
Operating leases	\$ 30,657,648	\$ 37,500,588	\$ 36,784,290
Direct financing leases	1,068,368	1,153,226	1,852,614
Leveraged leases	-	195,693	143,488
(Loss) gain on sales of assets	(1,145,708)	2,381,787	784,853
Interest income	55,569	157,678	49,225
Other	10,648	74,947	20,301
	<u>30,646,525</u>	<u>41,463,919</u>	<u>39,634,771</u>
Expenses:			
Depreciation and amortization	20,023,249	25,306,146	24,868,782
Interest	4,029,695	5,307,064	6,082,904
Other	1,345,396	973,204	1,467,738
Equipment and incentive management fees to affiliates	1,175,912	1,770,779	1,892,306
Cost reimbursements to General Partner	851,382	917,952	556,577
Professional fees	163,006	86,643	146,794
Provision for doubtful accounts	118,067	-	724,906
Provision for losses and impairments	-	-	6,054,134
	<u>27,706,707</u>	<u>34,361,788</u>	<u>41,794,141</u>
Income (loss) before extraordinary item	<u>2,939,818</u>	<u>7,102,131</u>	<u>(2,159,370)</u>
Extraordinary gain on early extinguishment of debt	-	2,056,574	-
Net income (loss)	<u>\$ 2,939,818</u>	<u>\$ 9,158,705</u>	<u>\$ (2,159,370)</u>
Net income (loss):			
General Partner	\$ 2,799,523	\$ 1,220,116	\$ 463,626
Limited Partners	140,295	7,938,589	(2,622,996)
	<u>\$ 2,939,818</u>	<u>\$ 9,158,705</u>	<u>\$ (2,159,370)</u>
Income (loss) before extraordinary item per Limited Partnership unit	\$ 0.01	\$ 0.40	\$ (0.17)
Extraordinary gain on early extinguishment of debt per Limited Partnership unit	-	0.13	-
Net income (loss) per Limited Partnership unit	<u>\$ 0.01</u>	<u>\$ 0.53</u>	<u>\$ (0.17)</u>
Weighted average number of units outstanding	14,996,050	14,996,050	14,996,050

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	<u>Limited Partners</u>		<u>General</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
	<u>Units</u>	<u>Amount</u>	<u>Partner</u>		
Balance December 31, 1998	14,996,050	\$120,428,411	\$ (717,165)	\$ -	\$ 119,711,246
Distributions to Limited Partners (\$1.00 per Unit)		(14,977,030)	-	-	(14,977,030)
Distributions to General Partner		-	(1,261,062)	-	(1,261,062)
Net income		(2,622,996)	463,626	-	(2,159,370)
Balance December 31, 1999	14,996,050	102,828,385	(1,514,601)	-	101,313,784
Distributions to Limited Partners (\$1.01 per Unit)		(15,088,765)	-	-	(15,088,765)
Distributions to General Partner		-	(1,220,116)	-	(1,220,116)
Net income (loss)		7,938,589	1,220,116	-	9,158,705
Balance December 31, 2000	14,996,050	95,678,209	(1,514,601)	-	94,163,608
Distributions to Limited Partners (\$1.00 per Unit)		(14,999,647)	-	-	(14,999,647)
Distributions to General Partner		-	(1,284,922)	-	(1,284,922)
Cumulative effect of change in accounting principle at January 1, 2001		-	-	281,661	281,661
Unrealized decrease in value of interest rate swap contracts		-	-	(1,607,667)	(1,607,667)
Net income		140,295	2,799,523	-	2,939,818
Balance December 31, 2001	14,996,050	\$ 80,818,857	\$ -	\$ (1,326,006)	\$ 79,492,851

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Operating activities:			
Net income (loss)	\$ 2,939,818	\$ 9,158,705	\$ (2,159,370)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:			
Leveraged lease income	-	(195,693)	(143,488)
Depreciation and amortization	20,023,249	25,306,146	24,868,782
Provision for losses and impairments	-	-	6,054,134
Provision for doubtful accounts	118,067	-	724,906
Loss (gain) on sales of assets	1,145,708	(2,381,787)	(784,853)
Extraordinary gain on early extinguishment of debt	-	(2,056,574)	-
Changes in operating assets and liabilities:			
Accounts receivable	344,704	(596,206)	29,875
Other assets	(18,004)	39,996	39,996
Accounts payable, General Partner	(24,768)	(829,967)	1,057,696
Accounts payable, other	(193,163)	277,865	(258,579)
Accrued interest payable	(178,400)	(180,839)	(91,056)
Unearned lease income	(287,529)	(158,758)	479,433
Net cash provided by operating activities	<u>23,869,682</u>	<u>28,382,888</u>	<u>29,817,476</u>
Investing activities:			
Proceeds from sales of assets	3,830,077	10,439,849	2,469,199
Reduction of net investment in direct financing leases	2,261,062	2,554,664	3,406,564
Purchases of equipment on direct financing leases	(4,344,293)	(1,678,000)	(860,492)
Initial direct lease costs	(48,560)	(18,370)	(880,362)
Purchases of equipment on operating leases	(1,950,111)	-	(13,793,316)
Net cash (used in) provided by investing activities	<u>(251,825)</u>	<u>11,298,143</u>	<u>(9,658,407)</u>
Financing activities:			
Distributions to Limited Partners	(14,999,647)	(15,088,765)	(14,977,030)
Distributions to General Partner	(1,284,922)	(1,220,116)	(1,261,062)
Borrowings under line of credit	12,900,000	450,000	15,822,824
Repayments of borrowings under line of credit	(8,800,000)	(11,600,000)	(16,454,531)
Proceeds of other long-term debt	8,000,000	11,700,000	9,000,000
Repayments of other long-term debt	(14,337,000)	(17,947,426)	(17,372,000)
Repayments of non-recourse debt	(5,481,516)	(6,912,082)	(4,339,675)
Proceeds of non-recourse debt	-	584,403	9,520,748
Net cash used in financing activities	<u>(24,003,085)</u>	<u>(40,033,986)</u>	<u>(20,060,726)</u>
Net (decrease) increase in cash and cash equivalents	<u>(385,228)</u>	<u>(352,955)</u>	<u>98,343</u>
Cash and cash equivalents at beginning of year	<u>1,321,417</u>	<u>1,674,372</u>	<u>1,576,029</u>
Cash and cash equivalents at end of year	<u><u>\$ 936,189</u></u>	<u><u>\$ 1,321,417</u></u>	<u><u>\$ 1,674,372</u></u>

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

**STATEMENTS OF CASH FLOWS
(CONTINUED)**

YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	<u>\$ 4,208,095</u>	<u>\$ 5,487,903</u>	<u>\$ 6,173,960</u>
Schedule of non-cash transactions:			
Extraordinary gain on early extinguishment of debt	<u>\$ -</u>	<u>\$ 2,056,574</u>	<u>\$ -</u>

See accompanying notes.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

1. Organization and Partnership matters:

ATEL Capital Equipment Fund VII, L.P. (the Partnership) was formed under the laws of the state of California on May 17, 1996 for the purpose of acquiring equipment to engage in equipment leasing and sales activities.

Upon the sale of the minimum amount of Units of Limited Partnership interest (Units) (120,000 Units) (\$1,200,000) and the receipt of the proceeds thereof on January 7, 1997, the Partnership commenced operations.

The General Partner of the Partnership is ATEL Financial Services LLC (ATEL). Prior to converting to a limited liability company structure, the General Partner was formerly known as ATEL Financial Corporation.

The Partnership's business consists of leasing various types of equipment. As of December 31, 2001, the original terms of the leases ranged from eighteen months to eleven years.

Pursuant to the Limited Partnership Agreement, the General Partner receives compensation and reimbursements for services rendered on behalf of the Partnership (Note 6). The General Partner is required to maintain in the Partnership reasonable cash reserves for working capital, the repurchase of Units and contingencies.

2. Summary of significant accounting policies:

Equipment on operating leases:

Equipment on operating leases is stated at cost. Depreciation is being provided by use of the straight-line method over the terms of the related leases to the equipment's estimated residual values at the end of the leases.

Revenues from operating leases are recognized evenly over the lives of the related leases.

Direct financing leases:

Income from direct financing lease transactions is reported using the financing method of accounting, in which the Partnership's investment in the leased property is reported as a receivable from the lessee to be recovered through future rentals. The income portion of each rental payment is calculated so as to generate a constant rate of return on the net receivable outstanding.

Investment in leveraged leases:

Leases which are financed principally with non-recourse debt at lease inception and which meet certain other criteria are accounted for as leveraged leases. Leveraged lease contracts receivable are stated net of the related non-recourse debt service (which includes unpaid principal and aggregate interest on such debt) plus estimated residual values. Unearned income represents the excess of anticipated cash flows (after taking into account the related debt service and residual values) over the investment in the lease and is amortized using a constant rate of return applied to the net investment when such investment is positive.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

2. Summary of significant accounting policies (continued):

Statements of cash flows:

For purposes of the Statements of Cash Flows, cash and cash equivalents include cash in banks and cash equivalent investments with original maturities of ninety days or less.

Income taxes:

The Partnership does not provide for income taxes since all income and losses are the liability of the individual partners and are allocated to the partners for inclusion in their individual tax returns.

The tax basis of the Partnership's net assets and liabilities varies from the amounts presented in these financial statements (unaudited):

	<u>2001</u>	<u>2000</u>
Financial statement basis of net assets	\$ 79,492,851	\$ 94,163,608
Tax basis of net assets	<u>(1,474,318)</u>	<u>28,061,745</u>
Difference	<u>\$ 80,967,169</u>	<u>\$ 66,101,863</u>

The primary differences between the tax basis of net assets and the amounts recorded in the financial statements are the result of differences in accounting for syndication costs and differences between the depreciation methods used in the financial statements and the Partnership's tax returns.

The following reconciles the net income (loss) reported in these financial statements to the loss reported on the Partnership's federal tax return (unaudited):

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net income (loss) per financial statements	\$ 2,939,818	\$ 9,158,705	\$ (2,159,370)
Adjustment to depreciation expense	(18,455,212)	(20,229,067)	(38,503,336)
Adjustments to lease revenues	2,381,967	573,208	3,664,666
Provision for losses	<u>(118,067)</u>	<u>-</u>	<u>6,054,134</u>
Net loss per federal tax return	<u>\$ (13,251,494)</u>	<u>\$ (10,497,154)</u>	<u>\$ (30,943,906)</u>

Per unit data:

Net income and distributions per unit are based upon the weighted average number of units outstanding during the period.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

2. Summary of significant accounting policies (continued):

Credit risk:

Financial instruments which potentially subject the Partnership to concentrations of credit risk include cash and cash equivalents and accounts receivable. The Partnership places its cash deposits and temporary cash investments with creditworthy, high quality financial institutions. The concentration of such deposits and temporary cash investments is not deemed to create a significant risk to the Partnership. Accounts receivable represent amounts due from lessees in various industries, related to equipment on operating and direct financing leases. See Note 8 for a description of lessees by industry as of December 31, 2001, 2000 and 1999.

Basis of presentation:

The accompanying financial statements as of December 31, 2001 and 2000 and for the three years ended December 31, 2001 have been prepared in accordance with accounting principles generally accepted in the United States. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Such estimates primarily relate to the determination of residual values at the end of the lease term.

Reserve for losses and impairments:

The Partnership maintains a reserve on its investments in equipment and leases for losses and impairments which are inherent in the portfolio as of the balance sheet date. The General Partner's evaluation of the adequacy of the allowance is a judgmental estimate that is based on a review of individual leases, past loss experience and other factors. While the General Partner believes the allowance is adequate to cover known losses, it is reasonably possible that the allowance may change in the near term. However, such change is not expected to have a material effect on the financial position or future operating results of the Partnership. It is the Partnership's policy to charge off amounts which, in the opinion of the General Partner, are not recoverable from lessees or the disposition of the collateral. See Note 11.

Derivative financial instruments:

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which established new accounting and reporting standards for derivative instruments. SFAS No. 133 has been amended by SFAS No. 137, issued in June 1999, and by SFAS No. 138, issued in June 2000.

SFAS No. 133, as amended, requires the Partnership to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value of the derivative instruments. Upon adoption on January 1, 2001, the Partnership adjusted hedging instruments to fair value in the balance sheet and recognized the offsetting gains or losses as adjustments to be reported in net income or other comprehensive income, as appropriate.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

2. Summary of significant accounting policies (continued):

The Partnership utilizes cash flow hedges comprised of interest rate swaps. Such interest rate swaps are linked to and adjust effectively the interest rate sensitivity of specific long-term debt.

The effective portion of the change in fair value of the hedging derivatives is recorded in Accumulated Other Comprehensive Income (AOCI) and the ineffective portion (if any) directly in earnings. Amounts in AOCI are reclassified into earnings in a manner consistent with the earnings pattern of the underlying hedged item (generally reflected in interest expense). If a hedged item is dedesignated prior to maturity, previous adjustments to AOCI are recognized in earnings to match the earnings recognition pattern of the hedged item (e.g., level yield amortization if hedging interest bearing instruments). Interest income or expense on most hedging derivatives used to manage interest rate exposure is recorded on an accrual basis, as an adjustment to the yield of the link exposures over the periods covered by the contracts. This matches the income recognition treatment of the exposure (i.e., the liabilities which are carried at historical cost, with interest recorded on an accrual basis).

Credit exposure from derivative financial instruments arises from the risk of a counterparty default on the derivative contract. The amount of the loss created by the default is the replacement cost or current positive fair value of the defaulted contract.

Recent accounting pronouncement:

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Partnership expects to adopt SFAS 144 as of January 1, 2002 and it does not expect that the adoption of the Statement will have a significant impact on the Partnership's financial position and results of operations.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

3. Investments in equipment and leases:

The Partnership's investments in equipment and leases consist of the following:

	December 31, <u>2000</u>	<u>Additions</u>	Depreciation Expense or Amortization <u>of Leases</u>	Reclass- ifications or <u>Dispositions</u>	December 31, <u>2001</u>
Net investment in operating leases	\$131,717,168	\$ 1,950,111	\$ (19,829,145)	\$ (12,771,545)	\$ 101,066,589
Net investment in direct financing leases	17,087,466	4,344,293	(2,261,062)	(238,776)	18,931,921
Reserve for losses and impairments	(504,227)	-	-	-	(504,227)
Assets held for sale or lease	1,233,078	-	-	8,034,536	9,267,614
Initial direct costs, net of accumulated amortization of \$726,703 in 2001 and \$532,599 in 2000	433,522	48,560	(194,104)	-	287,978
	<u>\$149,967,007</u>	<u>\$ 6,342,964</u>	<u>\$ (22,284,311)</u>	<u>\$ (4,975,785)</u>	<u>\$ 129,049,875</u>

Operating leases:

Property on operating lease consists of the following:

	December 31, <u>2000</u>	<u>Additions</u>	Reclass- ifications or <u>Dispositions</u>	December 31, <u>2001</u>
Transportation	\$101,664,857	\$ -	\$ (20,876,173)	\$ 80,788,684
Marine vessels / barges	27,276,479	-	(246,343)	27,030,136
Construction	23,002,563	-	(170,600)	22,831,963
Manufacturing	11,801,318	-	(2,098,517)	9,702,801
Mining	8,536,249	476,716	-	9,012,965
Other	5,108,831	1,473,395	(768,493)	5,813,733
Office automation	9,880,540	-	(4,582,908)	5,297,632
Materials handling	5,559,474	-	(293,820)	5,265,654
Communications	4,387,819	-	-	4,387,819
	<u>197,218,130</u>	<u>1,950,111</u>	<u>(29,036,854)</u>	<u>170,131,387</u>
Less accumulated depreciation	<u>(65,500,962)</u>	<u>(19,829,145)</u>	<u>16,265,309</u>	<u>(69,064,798)</u>
	<u>\$131,717,168</u>	<u>\$ (17,879,034)</u>	<u>\$ (12,771,545)</u>	<u>\$ 101,066,589</u>

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

3. Investments in equipment and leases (continued):

Direct financing leases:

As of December 31, 2001, investment in direct financing leases consist of various transportation, manufacturing and medical equipment. The following lists the components of the Partnership's investment in direct financing leases as of December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Total minimum lease payments receivable	\$ 15,374,654	\$ 14,005,112
Estimated residual values of leased equipment (unguaranteed)	<u>8,678,613</u>	<u>8,443,602</u>
Investment in direct financing leases	24,053,267	22,448,714
Less unearned income	<u>(5,121,346)</u>	<u>(5,361,248)</u>
Net investment in direct financing leases	<u>\$ 18,931,921</u>	<u>\$ 17,087,466</u>

All of the property on leases was acquired in the years 1997 through 2001.

At December 31, 2001, the aggregate amounts of future minimum lease payments under operating and direct financing leases are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Operating</u> <u>Leases</u>	<u>Direct</u> <u>Financing</u> <u>Leases</u>	<u>Total</u>
2002	\$ 23,011,324	\$ 3,627,497	\$ 26,638,821
2003	14,472,424	3,234,832	17,707,256
2004	9,652,671	3,144,239	12,796,910
2005	6,430,498	3,083,206	9,513,704
2006	1,509,428	1,528,750	3,038,178
Thereafter	<u>769,350</u>	<u>756,130</u>	<u>1,525,480</u>
	<u>\$ 55,845,695</u>	<u>\$ 15,374,654</u>	<u>\$ 71,220,349</u>

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

3. Investments in equipment and leases (continued):

Reserves for losses and impairments and allowance for doubtful accounts:

Activity in the reserve for losses and impairments and allowances for doubtful accounts consists of the following:

	Allowance for reserves and impairments	Allowance for doubtful accounts
Balance December 31, 1998	\$ 131,232	\$ -
Provision	6,054,134	724,906
Charge offs	-	(724,906)
Balance December 31, 1999	6,185,366	-
Charge offs	(5,681,139)	-
Balance December 31, 2000	504,227	-
Provision	-	118,067
Balance December 31, 2001	<u>\$ 504,227</u>	<u>\$ 118,067</u>

At December 31, 2001, the Partnership had commitments to purchase lease assets totaling approximately \$1,764,000.

4. Non-recourse debt:

At December 31, 2001, non-recourse debt consists of notes payable to financial institutions. The notes are due in varying monthly, quarterly and semi-annual payments. Interest on the notes is at fixed rates from 7.0% to 16.6%. The notes are secured by assignments of lease payments and pledges of assets. At December 31, 2001, the carrying value of the pledged assets is \$24,132,681. The notes mature from 2002 through 2008.

Future minimum payments of non-recourse debt are as follows:

Year ending December 31,	Principal	Interest	Total
2002	\$ 5,757,071	\$ 799,843	\$ 6,556,914
2003	3,261,508	288,853	3,550,361
2004	298,403	67,364	365,767
2005	322,838	42,927	365,765
2006	216,850	20,179	237,029
Thereafter	114,555	5,418	119,973
	<u>\$ 9,971,225</u>	<u>\$ 1,224,584</u>	<u>\$ 11,195,809</u>

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

5. Other long-term debt:

In 1998, the Partnership entered into a \$65 million receivables funding program (the Program) with a receivables financing company that issues commercial paper rated A1 by Standard and Poors and P1 by Moody's Investor Services. Under the Program, the receivables financing company receives a general lien against all of the otherwise unencumbered assets of the Partnership. The Program provides for borrowing at a variable interest rate (2.0624% at December 31, 2001), based on an index of A1 commercial paper.

The Program requires the General Partner on behalf of the Partnership, to enter into various interest rate swaps with a financial institution (also rated A1/P1) to manage interest rate exposure associated with variable rate obligations under the Program by effectively converting the variable rate debt to fixed rates. As of December 31, 2001, the Partnership receives or pays interest on a notional principal of \$38,540,000, based on the difference between nominal rates ranging from 4.36% to 7.58% and the variable rate under the Program. No actual borrowing or lending is involved. The termination of the swaps coincides with the maturity of the debt. The differential to be paid or received is accrued as interest rates change and is recognized currently as an adjustment to interest expense related to the debt.

Borrowings under the Program are as follows:

<u>Date Borrowed</u>	<u>Original Amount Borrowed</u>	<u>Balance December 31, 2001</u>	<u>Payment Rate on Interest Swap Agreement</u>
4/1/1998	\$ 21,770,000	\$ 4,900,000	6.220%
7/1/1998	25,000,000	5,628,000	6.155%
10/1/1998	20,000,000	9,076,000	5.550%
4/16/1999	9,000,000	3,122,000	5.890%
1/26/2000	11,700,000	8,427,000	7.580%
5/25/2001	2,000,000	1,785,000	5.790%
9/28/2001	6,000,000	5,602,000	4.360%
	<u>\$ 95,470,000</u>	<u>\$ 38,540,000</u>	

The long-term debt borrowings mature from 2002 through 2009. Future minimum principal payments of long-term debt and annual swap notional reductions are as follows:

<u>Year ending December 31,</u>	<u>Swap Notional / Debt</u>			<u>Rates on Interest Swap Agreements*</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2002	\$ 12,860,000	\$ 1,954,451	\$ 14,814,451	6.067% - 6.084%
2003	8,903,000	1,310,600	10,213,600	6.072% - 6.114%
2004	7,186,000	830,105	8,016,105	6.104% - 6.163%
2005	5,766,000	438,770	6,204,770	6.193% - 6.589%
2006	1,946,000	193,789	2,139,789	6.785% - 7.009%
2007	903,000	103,979	1,006,979	7.007% - 7.211%
2008	635,000	46,443	681,443	7.245% - 7.580%
2009	341,000	12,229	353,229	7.58%
	<u>\$ 38,540,000</u>	<u>\$ 4,890,366</u>	<u>\$ 43,430,366</u>	

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

5. Other long-term debt (continued):

* Represents the range of monthly weighted average fixed interest rates paid for amounts maturing in the particular year. The receive-variable rate portion of the swap represents commercial paper rates (2.0624% at December 31, 2001).

In 2001, the net effect of the interest rate swaps was to increase interest expense by \$622,647.

6. Related party transactions:

The terms of the Limited Partnership Agreement provide that the General Partner and/or affiliates are entitled to receive certain fees for equipment acquisition, management and resale and for management of the Partnership.

The Limited Partnership Agreement allows for the reimbursement of costs incurred by the General Partner in providing administrative services to the Partnership. Administrative services provided include Partnership accounting, investor relations, legal counsel and lease and equipment documentation. The General Partner is not reimbursed for services where it is entitled to receive a separate fee as compensation for such services, such as acquisition and disposition of equipment. Reimbursable costs incurred by the General Partner are allocated to the Partnership based upon actual time incurred by employees working on Partnership business and an allocation of rent and other costs based on utilization studies.

Substantially all employees of the General Partner record time incurred in performing administrative services on behalf of all of the Partnerships serviced by the General Partner. The General Partner believes that the costs reimbursed are the lower of (i) actual costs incurred on behalf of the Partnership or (ii) the amount the Partnership would be required to pay independent parties for comparable administrative services in the same geographic location and are reimbursable in accordance with the Limited Partnership Agreement.

The General Partner and/or affiliates earned fees, commissions and reimbursements, pursuant to the Limited Partnership Agreement as follows during 2001, 2000 and 1999:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Incentive management fees (computed as 4.0% of distributions of cash from operations, as defined in the Limited Partnership Agreement) and equipment management fees (computed as 3.5% of gross revenues from operating leases, as defined in the Limited Partnership Agreement plus 2% of gross revenues from full payout leases, as defined in the Limited Partnership Agreement).	\$ 1,175,912	\$ 1,770,779	\$ 1,892,306
Administrative cost reimbursements to General Partner	<u>851,382</u>	<u>917,952</u>	<u>556,577</u>
	<u>\$ 2,027,294</u>	<u>\$ 2,688,731</u>	<u>\$ 2,448,883</u>

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

7. Partners' capital:

As of December 31, 2001, 14,996,050 Units (\$149,960,050) were issued and outstanding. The Partnership is authorized to issue up to 15,000,050 Units, including the 50 Units issued to the Initial Limited Partners.

The Partnership's Net Profits, Net Losses, and Tax Credits are to be allocated 92.5% to the Limited Partners and 7.5% to the General Partner. In accordance with the terms of the of Limited Partnership Agreement, an additional allocation of income was made to the General Partner in 2001. The amount allocated was determined so as to bring the General Partner's ending capital account balance to zero.

Available Cash from Operations, as defined in the Limited Partnership Agreement, is to be distributed as follows:

First, Distributions of Cash from Operations are to be 88.5% to the Limited Partners, 7.5% to the General Partner and 4% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee, until the Limited Partners have received Aggregate Distributions in an amount equal to their Original Invested Capital, as defined, plus a 10% per annum cumulative (compounded daily) return on their Adjusted Invested Capital, as defined in the Limited Partnership Agreement.

Second, 85% to the Limited Partners, 7.5% to the General Partner and 7.5% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee.

Available Cash from Sales or Refinancing, as defined in the Limited Partnership Agreement, are to be distributed as follows:

First, Distributions of Sales or Refinancings are to be 92.5% to the Limited Partners and 7.5% to the General Partner, until the Limited Partners have received Aggregate Distributions in an amount equal to their Original Invested Capital, as defined, plus a 10% per annum cumulative (compounded daily) return on their Adjusted Invested Capital.

Second, 85% to the Limited Partners, 7.5% to the General Partner and 7.5% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

8. Concentration of credit risk and major customers:

The Partnership leases equipment to lessees in diversified industries. Leases are subject to the General Partner's credit committee review. The leases provide for the return of the equipment upon default.

As of December 31, 2001, 2000 and 1999, there were concentrations (greater than 10%) of equipment leased to lessees in certain industries (as a percentage of total equipment cost) as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Municipalities	17%	16%	15%
Transportation, other	14%	12%	*
Transportation, rail	13%	19%	19%
Electronics	*	*	12%

* Less than 10%

During 2001 and 2000, no customers comprised in excess of 10% of the Partnership's revenues from leases. During 1999, one customer comprised 10% of the Partnership's revenues from leases.

9. Line of credit:

The Partnership participates with the General Partner and certain of its affiliates in a \$62,000,000 revolving line of credit with a financial institution that includes certain financial covenants. The line of credit expires on April 12, 2002. The General Partner is currently negotiating a new line of credit and anticipates that the current line of credit will either be replaced upon its expiration or that the current line of credit will be extended until the new one is finalized. As of December 31, 2001, borrowings under the facility were as follows:

Amount borrowed by the Partnership under the acquisition facility	\$ 4,100,000
Amounts borrowed by affiliated partnerships and limited liability companies under the acquisition facility	13,500,000
Total borrowings under the acquisition facility	17,600,000
Amounts borrowed by the General Partner and its sister corporation under the warehouse facility *	10,999,501
Total outstanding balance	<u>\$ 28,599,501</u>
Total available under the line of credit	\$ 62,000,000
Total outstanding balance	(28,599,501)
Remaining availability	<u>\$ 33,400,499</u>

* (Unaudited) The carrying value of the assets pledged as collateral and financed at December 31, 2001 was \$17,955,014.

Draws on the acquisition facility by any individual borrower are secured only by that borrower's assets, including equipment and related leases. Borrowings on the warehouse facility are recourse jointly to certain of the affiliated partnerships and limited liability companies, the Partnership and the General Partner.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

9. Line of credit (continued):

The Partnership borrowed \$12,900,000, \$450,000 and \$15,822,824 under the line of credit during 2001, 2000 and 1999, respectively. Repayments on the line of credit were \$8,800,000, \$11,600,000 and \$16,454,331 during 2001, 2000 and 1999, respectively. Interest on the line of credit is based on either the thirty day LIBOR rate or the bank's prime rate. The effective interest rate on borrowings at December 31, 2001 was 4.75%.

The credit agreement includes certain financial covenants applicable to each borrower. The Partnership was in compliance with its covenants as of December 31, 2001.

10. Fair value of financial instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Cash and cash equivalents:

The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments.

Non-recourse debt:

The fair value of the Partnership's non-recourse debt is estimated using discounted cash flow analyses, based on the Partnership's current incremental borrowing rates for similar types of borrowing arrangements. The estimated fair value of the Partnership's non-recourse debt at December 31, 2001 is \$10,318,479.

Other long-term debt:

The carrying value of the Partnership's other long-term debt its fair value at December 31, 2001.

Line of credit:

The carrying amounts of the Partnership's variable rate line of credit approximates fair value.

Interest rate swaps:

The fair value of interest rate swaps is estimated by obtaining independent valuations or discounting the fixed cash flows paid under each swap using the rate at which the Partnership could enter into new swaps of similar maturities. Swaps are recorded at fair value at December 31, 2001.

ATEL CAPITAL EQUIPMENT FUND VII, L.P.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001

11. Extraordinary gain on extinguishment:

In January 2000, one of the Partnership's lessees filed for reorganization under Chapter 11 of the United States Bankruptcy Code. The Partnership determined that the assets under operating leases with a net book value of \$8,048,095 at December 31, 1999 leased to this particular lessee were impaired as of December 31, 1999. The Partnership estimated that the proceeds from the future sales of those assets, which were financed with non-recourse debt, would not be sufficient to satisfy the non-recourse lender. The debt balance was \$2,056,474 at December 31, 1999. As a result, the Partnership fully reserved for those assets as of December 31, 1999. The portion of the assets not financed with non-recourse debt were written down to their expected net realizable value as of December 31, 1999.

Upon foreclosure by the lender and upon sale of the financed assets in 2000, the Partnership recognized an extraordinary gain on the extinguishment of the debt \$2,056,474 during the year ended December 31, 2000.

12. Other comprehensive income:

In 2001, 2000 and in 1999, other comprehensive income consisted of the following:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net income (loss)	\$ 2,939,818	\$ 9,158,705	\$ (2,159,370)
Other comprehensive income:			
Cumulative effect of change in accounting principle at January 1, 2001	281,661		
Decrease in value of interest rate swap contracts	(1,607,667)	-	-
Comprehensive net income (loss)	<u>\$ 1,613,812</u>	<u>\$ 9,158,705</u>	<u>\$ (2,159,370)</u>

Item 9. CHANGES IN AND DISAGREEMENTS WITH AUDITORS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

The registrant is a Limited Partnership and, therefore, has no officers or directors.

All of the outstanding capital stock of ATEL Financial Services LLC (the General Partner) is held by ATEL Capital Group ("ACG"), a holding company formed to control ATEL and affiliated companies. The outstanding voting capital stock of ATEL Capital Group is owned 5% by A. J. Batt and 95% by Dean Cash.

Each of ATEL Leasing Corporation ("ALC"), ATEL Equipment Corporation ("AEC"), ATEL Investor Services ("AIS") and ATEL Financial Services LLC ("AFS") is a wholly-owned subsidiary of ATEL Capital Group and performs services for the Partnership. Acquisition services are performed for the Partnership by ALC, equipment management, lease administration and asset disposition services are performed by AEC, investor relations and communications services are performed by AIS and general administrative services for the Partnership are performed by AFS. ATEL Securities Corporation ("ASC") is a wholly-owned subsidiary of ATEL Financial Services LLC.

The officers and directors of ATEL Capital Group and its affiliates are as follows:

Dean L. Cash	Chairman of the Board of Directors of ACG, AFS, ALC, AEC, AIS and ASC; President and Chief Executive Officer of ACG, AFS and AEC
Paritosh K. Choksi	Director, Executive Vice President, Chief Operating Officer and Chief Financial Officer of ACG, AFS, ALC, AEC and AIS
Donald E. Carpenter	Vice President and Controller of ACG, AFS, ALC, AEC and AIS; Chief Financial Officer of ASC
Vasco H. Morais	Senior Vice President, Secretary and General Counsel for ACG, AFS, ALC, AIS and AEC

Dean L. Cash, age 51, joined ATEL as director of marketing in 1980 and has been a vice president since 1981, executive vice president since 1983 and a director since 1984. He has been President and CEO since April 2001. Prior to joining ATEL, Mr. Cash was a senior marketing representative for Martin Marietta Corporation, data systems division, from 1979 to 1980. From 1977 to 1979, he was employed by General Electric Corporation, where he was an applications specialist in the medical systems division and a marketing representative in the information services division. Mr. Cash was a systems engineer with Electronic Data Systems from 1975 to 1977, and was involved in maintaining and developing software for commercial applications. Mr. Cash received a B.S. degree in psychology and mathematics in 1972 and an M.B.A. degree with a concentration in finance in 1975 from Florida State University. Mr. Cash is an arbitrator with the American Arbitration Association.

Paritosh K. Choksi, age 48, joined ATEL in 1999 as a director, senior vice president and its chief financial officer. He became its executive vice president and COO in April 2001. Prior to joining ATEL, Mr. Choksi was chief financial officer at Wink Communications, Inc. from 1997 to 1999. From 1977 to 1997, Mr. Choksi was with Phoenix American Incorporated, a financial services and management company, where he held various positions during his tenure, and was senior vice president, chief financial officer and director when he left the company. Mr. Choksi was involved in all corporate matters at Phoenix and was responsible for Phoenix's capital market needs. He also served on the credit committee overseeing all corporate investments, including its venture lease portfolio. Mr. Choksi was a part of the executive management team which caused Phoenix's portfolio to increase from \$50 million in assets to over \$2 billion. Mr. Choksi received a bachelor of technology degree in mechanical engineering from the Indian Institute of Technology, Bombay; and an M.B.A. degree from the University of California, Berkeley.

Donald E. Carpenter, age 53, joined ATEL in 1986 as controller. Prior to joining ATEL, Mr. Carpenter was an audit supervisor with Lavenhol & Horwath, certified public accountants in San Francisco, California, from 1983 to 1986. From 1979 to 1983, Mr. Carpenter was an audit senior with Deloitte, Haskins & Sells, certified public accountants, in San Jose, California. From 1971 to 1975, Mr. Carpenter was a Supply Corp officer in the U. S. Navy. Mr. Carpenter received a B.S. degree in mathematics (magna cum laude) from California State University, Fresno in 1971 and completed a second major in accounting in 1978. Mr. Carpenter has been a California certified public accountant since 1981.

Vasco H. Morais, age 43, joined ATEL in 1989 as general counsel to provide legal support in the drafting and reviewing of lease documentation, advising on general corporate law matters, and assisting on securities law issues. From 1986 to 1989, Mr. Morais was employed by the BankAmeriLease Companies, Bank of America's equipment leasing subsidiaries, providing in-house legal support on the documentation of tax-oriented and non-tax oriented direct and leveraged lease transactions, vendor leasing programs and general corporate matters. Prior to the BankAmeriLease Companies, Mr. Morais was with the Consolidated Capital Companies in the corporate and securities legal department involved in drafting and reviewing contracts, advising on corporate law matters and securities law issues. Mr. Morais received a B.A. degree in 1982 from the University of California in Berkeley, a J.D. degree in 1986 from Golden Gate University Law School and an M.B.A. (Finance) in 1997 from Golden Gate University. Mr. Morais has been an active member of the State Bar of California since 1986.

Item 11. EXECUTIVE COMPENSATION

The registrant is a Limited Partnership and, therefore, has no officers or directors.

Set forth hereinafter is a description of the nature of remuneration paid and to be paid to the General Partner and its Affiliates. The amount of such remuneration paid in 2001, 2000 and 1999 is set forth in Item 8 of this report under the caption "Financial Statements and Supplementary Data - Notes to the Financial Statements - Related party transactions," at Note 6 thereof, which information is hereby incorporated by reference.

Selling Commissions

The Partnership will pay selling commissions in the amount of 9.5% of Gross Proceeds, as defined, to ATEL Securities Corporation, an affiliate of the General Partner. Of this amount, the majority is expected to be reallocated to other broker/dealers.

Through December 31, 1998, \$14,250,000 of such commissions (the maximum allowable amount) had been paid to the General Partner or its affiliates. Of that amount, \$12,327,297 was reallocated to other broker/dealers. None have been paid since 1998, nor will any additional amounts be paid in future periods.

Equipment Management Fees

As compensation for its service rendered generally in managing or supervising the management of the Partnership's equipment and in supervising other ongoing service and activities including, among others, arranging for necessary maintenance and repair of equipment, collecting revenue, paying operating expenses, determining the equipment is being used in accordance with all operative contractual arrangements, property and sales tax monitoring and preparation of financial data, the General Partner or its affiliates are entitled to receive management fees which are payable for each fiscal quarter and are to be in an amount equal to (i) 3.5% of the gross lease revenues from "operating" leases and (ii) 2% of gross lease revenues from "full payout" leases which contain net lease provisions.

See Note 6 to the financial statements included in Item 8 of this report for amounts paid.

Incentive Management Fees

As compensation for its service rendered in establishing and maintaining the composition of the Partnership's equipment portfolio and its acquisition and debt strategies and supervising fund administration including supervision the preparation of reports and maintenance of financial and operating data of the Partnership, Securities and Exchange Commission and Internal Revenue service filings, returns and reports, the General Partner is entitled to receive the Incentive management fee which shall be payable for each fiscal quarter.

Available Cash from Operations, as defined in the Limited Partnership Agreement, is to be distributed as follows:

First, Distributions of Cash from Operations are to be 88.5% to the Limited Partners, 7.5% to the General Partner and 4% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee, until the Limited Partners have received Aggregate Distributions in an amount equal to their Original Invested Capital, as defined, plus a 10% per annum cumulative (compounded daily) return on their Adjusted Invested Capital, as defined in the Limited Partnership Agreement.

Second, 85% to the Limited Partners, 7.5% to the General Partner and 7.5% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee.

Available Cash from Sales or Refinancing, as defined in the Limited Partnership Agreement, are to be distributed as follows:

First, Distributions of Sales or Refinancings are to be 92.5% to the Limited Partners and 7.5% to the General Partner, until the Limited Partners have received Aggregate Distributions in an amount equal to their Original Invested Capital, as defined, plus a 10% per annum cumulative (compounded daily) return on their Adjusted Invested Capital.

Second, 85% to the Limited Partners, 7.5% to the General Partner and 7.5% to the General Partner or its affiliate designated as the recipient of the Incentive Management Fee.

See Note 6 to the financial statements included in Item 8 of this report for amounts paid.

Equipment Resale Fees

As compensation for service rendered in connection with the sale of equipment, the General Partner is entitled to receive an amount equal to the lesser of (i) 3% of the sales price of the equipment, or (ii) one-half the normal competitive equipment sales commission charged by unaffiliated parties for such service. Such fee is payable only after the Limited Partners have received a return of their adjusted invested capital (as defined in the Limited Partnership Agreement) plus 10% of their adjusted invested return of their adjusted invested capital (as defined in the Limited Partnership Agreement) plus 10% of their adjusted invested capital per annum calculated on a cumulative basis, compounded daily, commencing the last day of the quarter in which the Limited Partner was admitted to the Partnership. To date, none have been accrued or paid.

Equipment Re-lease Fee

As compensation for providing re-leasing service, the General Partner is entitled to receive fees equal to 2% of the gross rentals or the comparable competitive rate for such service relating to comparable equipment, whichever is less, derived from the re-lease provide that (i) the General Partner or their affiliates have and will maintain adequate staff to render such service to the Partnership, (ii) no such re-lease fee is payable in connection with the re-lease of equipment to a previous lessee or its affiliates, (iii) the General Partner or its affiliates have rendered substantial re-leasing service in connection with such re-lease and (iv) the General Partner or its affiliates are compensated for rendering equipment management service. To date, none have been accrued or paid.

General Partner's Interest in Operating Proceeds

Net income, net loss and investment tax credits are allocated 92.5% to the Limited Partners and 7.5% to the General Partner. In accordance with the terms of the of Limited Partnership Agreement, an additional allocation of income was made to the General Partner in 2001. The amount allocated was determined so as to bring the General Partner's ending capital account balance to zero. See financial statements included in Item 8, Part I of this report for amounts allocated to the General Partner in 2001, 2000 and 1999.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

At December 31, 2001, no investor is known to hold beneficially more than 5% of the issued and outstanding Units.

Security Ownership of Management

The shareholders of the General Partner are beneficial owners of Limited Partnership Units as follows:

(1) <u>Title of Class</u>	(2) <u>Name and Address of Beneficial Owner</u>	(3) <u>Amount and Nature of Beneficial Ownership</u>	(4) <u>Percent of Class</u>
Limited Partnership Units	A. J. Batt 235 Pine Street, 6th Floor San Francisco, CA 94104	Initial Limited Partner Units 25 Units (\$250) (owned by wife)	0.00017%
Limited Partnership Units	Dean Cash 235 Pine Street, 6th Floor San Francisco, CA 94104	Initial Limited Partner Units 25 Units (\$250) (owned by wife)	0.00017%

Changes in Control

The Limited Partners have the right, by vote of the Limited Partners owning more than 50% of the outstanding Limited Partnership units, to remove a General Partner.

The General Partner may at any time call a meeting of the Limited Partners or a vote of the Limited Partners without a meeting, on matters on which they are entitled to vote, and shall call such meeting or for vote without a meeting following receipt of a written request therefore of Limited Partners holding 10% or more of the total outstanding Limited Partnership units.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The responses to Item 1 of this report under the caption "Equipment Leasing Activities," Item 8 of this report under the caption "Financial Statements and Supplemental Data - Notes to the Financial Statements - Related party transactions" at Note 6 thereof, and Item 11 of this report under the caption "Executive Compensation," are hereby incorporated by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements and Schedules

1. Financial Statements

Included in Part II of this report:

Report of Independent Auditors

Balance Sheets at December 31, 2001 and 2000

Statements of Operations for the years ended December 31, 2001, 2000 and 1999

Statements of Changes in Partners' Capital for the years ended December 31, 2001, 2000 and 1999

Statement of Cash Flows for the years ended December 31, 2001, 2000 and 1999

Notes to Financial Statements

2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(b) Reports on Form 8-K for the fourth quarter of 2001

None

(c) Exhibits

(3) and (4) Agreement of Limited Partnership, included as Exhibit B to Prospectus (Exhibit 28.1), is incorporated herein by reference to the report on Form 10K for the period ended December 31, 1996 (File No. 333-08879).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 3/25/2002

ATEL Capital Equipment Fund VII, L.P.
(Registrant)

By: ATEL Financial Services, LLC,
General Partner of Registrant

By: /s/ Dean Cash
Dean Cash,
President and Chief Executive Officer of
ATEL Financial Services, LLC (General
Partner)

By: /s/ Paritosh K. Choksi
Paritosh K. Choksi,
Executive Vice President of ATEL
Financial Services, LLC (General Partner)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the persons in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>CAPACITIES</u>	<u>DATE</u>
<u>/s/ Dean Cash</u> Dean Cash	President, Chairman and Chief Executive officer of ATEL Financial Services, LLC	3/25/2002
<u>/s/ Paritosh K. Choksi</u> Paritosh K. Choksi	Executive Vice President and director of ATEL Financial Services, LLC, principal financial officer of registrant; principal financial officer and director of ATEL Financial Services, LLC	3/25/2002
<u>/s/ Donald E. Carpenter</u> Donald E. Carpenter	Principal accounting officer of registrant; principal accounting officer of ATEL Financial Services, LLC	3/25/2002

Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act:

No proxy materials have been or will be sent to security holders. An annual report will be furnished to security holders subsequent to the filing of this report on Form 10-K, and copies thereof will be furnished supplementally to the Commission when forwarded to the security holders.